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HEARING ON
AGRICULTURAL TRADE NEGOTIATIONS

STATEMENT OF

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Mr. Chairman and members of the Committee, I am Andy LaVigne, Executive Vice President and CEO of Florida Citrus Mutual. I am pleased to present testimony today on the very critical issue of agricultural trade negotiations under the Free Trade Area of the Americas (FTAA) and the World Trade Organization (WTO). FCM is a voluntary cooperative association whose active membership consists of more than 11,000 Florida growers of citrus for processing and fresh consumption. FCM's membership accounts for more than 90 percent of Florida's citrus growers and as much as 80 percent of all oranges grown in the United States for processing into juice and other citrus products.

Late last week, U.S., Brazilian, and other FTAA negotiators began discussing how the scope of the FTAA might be limited in order to reduce political friction, address serious national economic interests of all the participants, and reenergize the negotiations to reach a constructive outcome. We believe that this is a step in the right direction. An FTAA that includes tariff reductions on all products is not in the best economic interests of our Hemisphere, it is not required under the current WTO definition of a "trade union," and it is not politically feasible. The Florida citrus industry does not object to the improvement of U.S. ties throughout the world via stronger trading relationships, and we have supported many such agreements programs over the years, such as the CBI. However, our industry and global market are highly unique and import sensitive – not because we lack competitiveness, but because of the structure, dynamics and history of the Brazilian-dominated global orange juice industry. We look forward to the future expansion of world markets and Florida's vigorous participation in those markets. Florida orange growers are the most efficient in the world in terms of production yield per acre. Yet, for reasons well beyond Florida growers' control, we cannot expect to benefit from global trade liberalization under the current conditions of concentration of power in the hands of a few Brazilian producers. Until this concentration is diminished, fair trade is established, and consumer purchasing power is increased around the world, the US and Western Europe will remain the targeted markets for orange juice, and our economic survival is contingent on the existence of the U.S. orange juice tariff on Brazilian juice. ANY reduction in the current tariff on orange juice under the FTAA, the WTO or any other agreement to which Brazil is a party would prove catastrophic for our industry, and very damaging to the State of Florida and not in the best interests of consumers.

The U.S. orange juice tariff offers the most efficient Florida orange growers the opportunity to exist as the sole large volume competitor in a global industry dominated by five huge producers in Brazil. The tariff does not ensure survival, as many bankrupt Florida growers can attest, but it counteracts some of the extreme pricing pressure inflicted by frequent devaluation of Brazil's currency, the predatory pricing behavior of the Brazilian orange juice oligopoly, and the sheer market power of a highly concentrated industry selling globally a dollar-denominated commodity made with progressively devalued local inputs. Furthermore, the tariff gives Florida growers a fighting chance to make a living in a country that properly places tremendous value on costly worker rights and environmental integrity, in the face of competition from a country that does not.

The global orange juice industry is highly unique. World orange juice consumption is concentrated chiefly among only 2 regions: the United States and the European Union. Aside from the United States and, to a lesser extent, Canada,[1] there are no other significant orange juice consuming countries in the Western Hemisphere. Thus, the U.S. orange juice industry is not in a position to benefit from FTAA trade liberalization.

Global orange juice production is also concentrated chiefly among only 2 countries: Brazil and the United States. Brazil's production is controlled by 5 very large processors,[2] which control roughly 80 percent of Brazil's FCOJ production. Given that

[1] The United States already enjoys duty free access to the Canadian orange juice market.
[2] These dominant Brazilian processors are Cargill Citrus Ltda., Citrosuco Paulista S.A., Citrovita Agro Industrial Ltda., LouisDreyfus Citrus S.A., and Sucocitrico Cutrale Ltda.

they also operate and control Brazil's tank ship distribution system, these companies indirectly control nearly all of Brazil's FCOJ exports. The large Brazilian processors benefit from advantages brought by past subsidization and dumping, lax environmental protection, weak and largely unenforced labor laws, frequent national currency devaluation (which reduces the relative cost of production inputs and provides false incentives to overproduce), and oligopoly price manipulation.

Florida orange growers are not the only U.S. agricultural industry pitted against the unfair advantages of Brazil's agricultural exports; however, they are one of the few industries that the U.S. FTAA proposal threatens with demise. U.S. soybean farmers claim that on account of Brazil's currency devaluation, they were receiving 40 percent less for their soybeans in 2002 than in 1997, while Brazilian farmers were receiving over 36 percent more.[3] Brazil is the world's second largest soybean producer after the United States, so this is very significant. However, soybeans are consumed throughout the world and new export markets are highly sought after by the U.S. industry. So, it makes sense that the US soybean industry contends with the unfair advantages of Brazil's devaluation chiefly via domestic subsidies. While subsidies are used to help level the playing field for agricultural industries whose top markets are abroad, tariffs are used to level the field for industries, like orange juice, whose top markets are in the United States. The U.S. industry that grows oranges for processing is unique among U.S. agricultural industries in that it does not receive any production or trade distorting (WTO-designated "amber box") domestic subsidies. Its only offsetting tools are the tariff and enforcement of the unfair trade laws.

FCM believes that the Administration's FTAA proposal on agriculture is lop-sided to the extent that it puts all U.S. agricultural tariffs on the table, while leaving all

[3] "ASA Emphasizes Importance of Maintaining $5.26 Soybean Loan Rate to Help Offset Effects of Currency Devaluations in Argentina & Brazil," American Soybean Association, January 7, 2002 (http://www.soygrowers.com/newsroom/releases/2002%20releases/r010702.htm).

domestic subsidies off the table. In so doing, the Administration's proposal effectively, if unwittingly, singles out agricultural industries for demise based exclusively on the location of their markets, without consideration of the effect on the U.S. economy. Not only is this an unsound approach to trade policy, it is also guaranteed not to meet any of the stated objectives of trade liberalization: foreign industrial growth and competition, lower prices to consumers, and increasing living standards.

FCM asserts that any reduction in the U.S. orange juice tariff applying to Brazil would devastate the U.S. industry that grows oranges for processing. Furthermore, any tariff reduction would critically damage the entire Florida citrus industry, the economic impact of which has recently been estimated at $9.13 billion in industry output, $4.18 billion in value-added activity, and 89,700 jobs.[4] Perhaps even most damaging to the U.S. economy is the fact that, since this Florida industry is Brazil's only competitor of global significance, its demise would not bring cheaper orange juice to the U.S. breakfast table, but would eventually unleash the Brazilian oligopoly to raise U.S. orange juice prices. For all of these reasons, FCM strongly opposes any reduction in U.S. orange juice tariffs under the FTAA or any trade agreement to which Brazil is a party.

U.S. orange juice markets, particularly those throughout the EU, have also been increasingly plagued with Brazilian orange juice prices that frequently appear to be below their cost of production. The long-term annual average trend in the price of Brazilian orange juice exports has been downward during the past decade and a half. Such constant downward price pressure in foreign markets makes the exporting of U.S. orange juice nearly impossible. The modest growth in U.S. orange juice exports that occurred during the late-1990s, was more a function of the export incentives provided by the

[4] Alan Hodges, et al, "Economic Impact of Florida's Citrus Industry, 1999-2000," *Economic Information Report,* EIR 01-2, University of Florida, Institute of Food and Agricultural Sciences, Food and Resource Economics Department, July 2001, p. 3.

import duty drawback program, than of the ability of U.S. producers to earn a fair price in export markets.

U.S. processors of Florida orange juice are eager to expand juice exports overseas, and they fully support the elimination of foreign orange juice tariffs. However, they are not naïve enough to believe that foreign tariff liberalization will bring them instant success abroad. Commercially processed orange juice is not a bulk basic commodity like wheat or milk powder, which are universally consumed throughout the world. Commercially processed orange juice, while an extremely healthy component of a balanced diet, is not considered an essential basic commodity for all levels of economic development, and is consumed primarily in high-income, developed countries. Not only that, but even if lucrative orange juice markets existed outside of the EU, Japan, Canada and a handful of wealthy cities, and even if orange juice tariffs were liberalized in these markets, the unsubsidized U.S. orange juice industry would stand little chance of competing with Brazil's extremely low price levels.

The University of Florida recently calculated comparative cost of production estimates for processed oranges in Florida and São Paulo, Brazil. They estimate that in crop year 2000/01 labor costs (including wages, salaries and social taxes) were 45¢/box in Florida and only 17¢/box in São Paulo.[5] A substantial portion of this wide discrepancy is due to the many currency devaluations Brazil has experienced during the last few decades.

Brazil's orange juice export sales to all markets are denominated in U.S. dollars. When the Real is devalued, the cost of labor and other domestic production inputs, which are denominated in Real, become cheaper relative to the price paid for the orange juice. The cost of grove labor as a percentage of the export price of Brazilian orange juice shrinks each time the Brazilian Real loses value against the U.S. dollar, thus, increasing the profit margin obtained by the Brazilian processor. The increase in profits then sends false market signals throughout the Brazilian citrus industry causing it to overplant and overproduce. The overproduction gives way to lowered international orange juice prices, which reduce the value of Florida's processing oranges and diminish growers' profits. However, further devaluation prevents the Brazilian industry from feeling the squeeze of lower international prices, and the cycle continues. In this way, the highly developed Brazilian orange juice oligopoly is able to benefit from residing in a country with an underdeveloped and inflationary economy.

In an ideal free market world economy where basic and equivalent labor, environmental, and health/safety laws exist and are enforced, where world production and prices are not controlled by a single oligopolistic industry, and where currency devaluations do not tip the scales dramatically in favor of the foreign exporters, the law of natural advantages might outweigh arguments for tariff protection. However, Brazil's advantages are not "natural" and the playing field is grossly skewed. The tariff is the only offset on which this unsubsidized U.S. industry can rely to counter these "unnatural" advantages.

If U.S. orange juice tariffs are reduced or eliminated, the price of U.S. imports of bulk FCOJ from Brazil, as well as the futures contract prices of FCOJ and the U.S. wholesale price of orange juice, would fall rapidly. At the same time, the volume of U.S.

[5] "Cost for Processed Oranges: A Comparison of Florida and São Paulo," Ronald P. Muraro and Thomas H. Spreen, IFAS, The University of Florida, presented at the Florida Citrus Industry Economics Meeting,

FCOJ imports from Brazil would increase significantly. The supply of U.S. juice oranges and orange juice, however, would remain constant in the short term, as they are not responsive to price.

It is important to understand that the U.S. supply of juice oranges is highly inelastic, because they are a natural, perishable product whose supplies are primarily dictated by the number of productive citrus trees in the United States, air temperature, amount of rainfall, and citrus tree diseases. Capacity utilization in citrus groves is always near 100 percent, because all wholesome citrus fruit is picked. Since it takes at least 4-5 years for an orange tree to begin bearing fruit and 25 years for it to stop bearing fruit, supplies cannot be manipulated in the short-run in response to price. Thus, given the inability of orange supplies to respond to juice prices, the U.S. on-tree price of juice oranges would immediately plummet and, in turn, cause grower rates of return to fall well below the break-even point, resulting in widespread grove closures.

The grove closures would leave unemployed over 42,000 citrus grove workers in Florida alone, and jeopardize the existence of all U.S. juice extractors and processors that depend on domestic citrus. It would also have grave consequences for the following upstream suppliers of the U.S. juice orange industry:

- nurseries that supply replacement trees to citrus groves,
- suppliers of fertilizer, fungicide, herbicide and insecticide to citrus groves,
- suppliers of irrigation and spraying systems, mechanical harvesters and farm implements,
- financial institutions, especially merchant banks that have citrus exposure,
- insurance companies that serve the citrus industry, and
- freight companies that haul citrus to processing plants and orange juice through the distribution system.

July 8-9, 2002.

Since the land on which processing oranges are grown consists of very sandy soil with little agricultural value outside of citrus production, and the volume of all other fruit juices extracted in the United States combined pales in comparison to orange juice, the above upstream industries could not exist if orange juice production were no longer viable. In addition, because the production of about 75 percent of all processing oranges is concentrated in Central and South Florida, entire counties in these regions would be ravaged and their real estate values would tumble as thousands of groves would be abandoned, with no practical alternative land utilization.

ECONOMIC EFFECTS ON THE CONSUMER

Aside from the impact of unrestrained orange juice imports on the U.S. orange growing industry, the most highly touted benefit of free trade agreements -- lower prices to consumers -- would not be realized in the case of orange juice. Increasingly, the price of retail orange juice has not tracked the declines in processing orange prices nor the declines in wholesale and futures prices of FCOJ. On the contrary, retail prices have skyrocketed while processing orange and FCOJ prices have collapsed. What has happened is that orange juice retailers are charging the final consumer what the market will bear, which is apparently higher and higher each year, while the processors, reprocessors, and blenders, who buy their raw materials (FCOJ from Brazil or processing oranges from Florida growers) at plunging prices, all share in pocketing the significant juice mark-up. This pricing situation benefits the oligopolistic Brazilian processors two-fold because 1) they now own some of the processors in the United States that are benefiting from the mark-up, and 2) their low-priced FCOJ exports to the United States depress the prices received by U.S. growers thus forcing many of them out of business and expanding the Brazilian processors' control over world orange juice supplies and prices.

Should U.S. tariffs on orange juice from Brazil be reduced or eliminated, this situation would be exacerbated, as the U.S. processors, reprocessors and blenders -- the first consumers of imported orange juice -- would reap the benefits of tariff reduction, while Florida growers of processing oranges would take a heavy hit. The final consumers of the imported orange juice would never see the price break supposedly derived from the tariff reduction. However, as the Brazilian processors amass greater and greater global market power, U.S. final consumers would eventually suffer the consequences of unrestrained orange juice prices.

In order to get a glimpse of the likely impact of tariff reductions in the market, one need only look at the record of bulk juice prices, returns to growers, and prices to consumers over the past ten years. As the U.S. tariff decline of 15% was forced on the market under the Uruguay Round Agreements, the global bulk juice price and average return to Florida growers declined steadily over that time, while the price of the finished product to consumers rose, seemingly disconnected from those underlying factors. The reason is that a dramatically concentrated global industry with almost limitless cheap resources will take full advantage of any declining constraint on its power represented by tariff cuts, to minimize its competition and maximize its profits, at the expense of consumers.

It must be understood that the U.S. citrus tariff is the only form of “assistance” U.S. orange growers receive, and it costs U.S. taxpayers nothing. Furthermore, because most duties paid on U.S. orange juice imports from Brazil are subject to duty drawback, the Brazilian processors effectively pay only about $1.5 million, or 2.3 percent ad valorem, in orange juice duties.[6] At the same time, non-citrus U.S. agriculture is now receiving over $20 billion annually in direct government payments.[7]

It is by no means true that the United States has the highest agricultural tariffs in the hemisphere. According the FTAA Hemispheric Database, the following figures represent the percentages of tariff lines in each country's tariff schedule that have duties equivalent to 10 percent ad valorem or above:[8]

Brazil	68%
Argentina	67%
Venezuela	66%
Colombia	63%
United States	11%

CONCLUSION

The U.S. market is by far the most significant market we have. Unlike dairy and crop commodities, which are consumed throughout the world, orange juice is consumed primarily in the highly developed market economies of the United States and Europe. With Brazilian juice firmly entrenched in Europe at rock bottom prices, it only makes sense for Florida producers to concentrate on sales at home. Our growth in exports of specialty products, such as NFC, must necessarily be incremental and secondary to the

[6] Estimated by FCM based on the assumption that duties are drawn back on an amount of FCOJ imports from Brazil equal to 90 percent of U.S. FCOJ exports. In 2002, U.S. domestic exports of bulk FCOJ (2009.11.0060) were 441,664,083 liters. If we assume that 90 percent of these exports resulted in drawback, then import duties were drawn back on 397,497,675 liters of imports. In 2002, the import duty was 7.85¢/liter. Since 99 percent of import duties are drawn back, the amount of duties drawn back on 397,497,675 liters of imports would have been $30,891,532. In 2002, 411,577,471 liters (valued at $61,658,753) of bulk FCOJ were imported from Brazil, and $32,308,827 in duties were collected on these imports. So, post-drawback, U.S. Customs netted only about $1,417,295 ($32,308,827 - $30,891,532) in duties on Brazilian bulk FCOJ during 2002. This means that the tariff really only cost U.S. importers .34¢/liter ($1,417,295/411,577,471 liters), which equals only 2.3% ad valorem ($1,417,295/$61,658,753) in 2002.

[7] "Farm Income and Costs, Direct Government Payments, ERS, USDA (http://www.ers.usda.gov/briefing/farmincome/data/GP_T7.htm).

domestic market for FCOJ. While the Florida industry will continue to seek out new export markets, both for fresh and processed products, it is myopic to think that we are likely to be as large a factor in foreign markets as Brazil. We simply do not have the domestic subsidies we would need to compete with the Brazilians and Europeans in Europe. Furthermore, we cannot be there to develop those new foreign markets slowly over the many years it will take them to achieve higher disposable incomes, if the Florida industry is forced out of existence by the elimination of the tariff. We want to serve the U.S. market and we can do so without the huge government payments that other agricultural sectors receive. However, the U.S. orange juice tariff is necessary to offset the unfair or artificial advantages that lower the price of Brazilian juice.

Florida Citrus Mutual understands that free trade in many industries, including many agricultural industries, leads to increased competition, eventual price benefits to consumers, and overall global economic growth. Unfortunately, free trade cannot deliver these rewards to such a concentrated and polarized global industry, especially one in which the developing country's industry is, in fact, already the most highly developed in the world. Florida Citrus Mutual appreciates the opportunity to explain to the Committee the unique global structure of the orange juice industry and the negative economic effects that would occur as a result of U.S. tariff reduction or elimination.

I will be pleased to answer any questions.

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[8] FTAA Hemispheric Database online at http://198.186.239.122/chooser.asp?Idioma=Ing.